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PP RUEHAG RUEHAST RUEHBI RUEHCI RUEHDBU RUEHDF RUEHIK RUEHLH RUEHLN  
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TO RUEHC/SECSTATE WASHDC PRIORITY 2944

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAK/AMEMBASSY ANKARA PRIORITY 5288

RUEHBJ/AMEMBASSY BEIJING PRIORITY 3022

RUEHKO/AMEMBASSY TOKYO PRIORITY 2887

RUEHIT/AMCONSUL ISTANBUL PRIORITY 3532

RHMCSUU/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

RUEHBS/USEU BRUSSELS PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEAIIA/CIA WASHDC PRIORITY

RUEKJCS/JOINT STAFF WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 ASHGABAT 000729

SENSITIVE

SIPDIS

SCA/CEN; EEB

ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

E.O. 12958: N/A

TAGS: [PGOV](#) [EPET](#) [EINV](#) [TX](#)

SUBJECT: TURKMENISTAN: KAKAYEV DESCRIBES DEVELOPMENT  
STRATEGY FROM ANOTHER PERSPECTIVE

11. (SBU) SUMMARY: The Morningstar delegation's May 29 meeting with State Agency for the Management and Use of Hydrocarbons Chairman Kakayev provided some insights into Turkmen thinking regarding the current energy sector development strategy, the export pipeline question and commercial proposals that fall outside of standard definitions. He expressed confidence in the current development strategy for Yolotan, which he said would bring production up sufficiently to cover the country's gas obligation to China. Kakayev asserted that there should be a balance between the development of infrastructure, extraction of resources, and transportation options, and Turkmenistan will not increase production capacity before there is a destination for the gas produced, he said. His general comments show a flawed strategy that is unlikely to fulfill national needs. Passively waiting for Western interests to build a pipeline to give Turkmenistan access to Western markets, for example, and putting minimal effort into boosting production, means the country could lose out on key opportunities to develop a western route. END SUMMARY.

12. (SBU) State Agency for the Management and Use of Hydrocarbons Chairman Yagshygeldy Kakayev told members of the SE/EE Morningstar delegation that the Agency is empowered to license foreign companies to work in Turkmenistan through direct negotiations, and is currently overseeing the activities of seven production sharing agreements. (NOTE: That includes the three onshore and the four offshore PSAs. END NOTE.) He explained that one of the reasons Turkmenistan is agreeable to PSAs offshore but not onshore is that Turkmenistan has decades of experience performing onshore exploration and development, and has the necessary equipment. It has little, however, in the way of offshore development experience. As a historic example, Kakayev said the Soviets had only explored one field in the Caspian Sea, which is in the Azerbaijan-claimed area of the sea.

SEEKING TECHNOLOGY AND INVESTMENT

¶3. (SBU) He acknowledged that development of the South Yolotan field would demand huge investment and an infusion of technology, and said the Turkmen government was now negotiating the financing of a joint development project for Yolotan. (NOTE: He may have been referring to the reported Iranian proposal, which provides for the development of an unidentified portion of the field and for the construction of a new 10 bcm export pipeline to Iran. END NOTE.)

#### STATE AGENCY OPEN TO INVENTIVE PROPOSALS

¶4. (SBU) He said that the Turkmen government wants to bring in foreign companies that will invest in the field and bring in the necessary technology to develop it. He added that the government was open to either foreign company-managed or joint government-company projects. It would also be possible for a foreign company that invests in and develops a field to participate in a joint production effort. However, for Turkmenistan, a service agreement means that a company will not receive a portion of the field's resources, he said. Kakayev noted that large international oil companies don't want to participate in projects that lack the promise of reserves or are short term in nature. Service companies, however, are interested in such projects, especially the drilling, well services and construction companies, he said.

#### YOLOTAN

¶5. (SBU) Kakayev rejected the delegation's research indicating that Yolotan will require \$190 billion in

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investment over the next 20 years. He also rebuffed the proposition that the more gas Turkmenistan produces, the more diversified its export pipelines will become, due to commercial pressures to move the product to market. Kakayev said that the government had decided to do what it takes to raise production from South Yolotan by 10 bcm per year. He said there was no reason to increase it by 60 bcm, because there was no way to export such quantities now. He said that the 20 bcm the Turkmen government expected to come from South Yolotan in the next few years would be enough to meet the Chinese agreement. (NOTE: The agreement President Berdimuhammedov signed with the Chinese government in July 2007 stipulated that Turkmenistan would contribute 17 bcm to the pipeline that will take some 30-40 bcm of gas to China sometime after 2010. END NOTE.)

¶6. (SBU) Kakayev said that Yolotan is not like Dovletabad in its geology and structure. Dovletabad has a smaller "pay zone". Yolotan, he said, is a smaller territory, but the pay zone is thicker and Turkmen operators still haven't hit water during any drilling operations, which indicates the drilling hasn't fully penetrated the pay zone. He acknowledged the thick layer of salt that must be penetrated to access Yolotan's gas, and the need for foreign company assistance to properly drill through it and manage such operations.

#### PIPELINES

¶7. (SBU) Kakayev said the policy from the beginning of independence was to sell Turkmen gas in all directions. He reminded the delegation of failed efforts in 1992 to develop an export line through Iran and Turkey, and Unocal's proposal to build a line through Afghanistan in the late 1990s with Shell and Bechtel. After those experiences, Turkmen officials chose to establish a policy of selling gas at the border. He noted that Turkmenistan is currently receptive to Afghanistan and Pakistan building a pipeline to the Turkmen border. Negotiations for a TAPI pipeline have been underway since 2002, he said. In the same way, he noted, Turkmenistan is open to a possible Trans-Caspian pipeline. Kakayev said that the Malaysian energy company, Petronas will begin delivering gas from its offshore fields in 2010. The current plan is to sell this gas to Gazprom. The old coastal CAC-3

pipeline has some remaining capacity that could also be tapped, he said, without providing details.

#### SEEKING BALANCE

18. (SBU) Kakayev asserted that there should be a balance between the development of infrastructure, extraction of resources, and transportation options. Turkmenistan will not increase production capacity before there is a destination for the gas produced, he said. The goal, he said, is to adjust the pace of development to match the rate at which the country is linked up with international infrastructure. He argued that Turkmenistan does not want to assume transportation or market risks, although it accepts geological, financial and other risks. He then suggested that by building infrastructure just to the border, and allowing foreign interests to complete the connection abroad, both the risks and profits of energy resources are shared equally.

19. (SBU) COMMENT: Kakayev's assertion that it makes more sense to pace resource development with international energy transport development ran completely counter to what the delegation was recommending, and makes no sense. Indeed, it may simply be a way for the Turkmen to justify their plan for slow onshore development using service companies. By taking

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a passive stance on the development of international transportation routes (with the exception of seemingly all-expense paid ones such as Turkmenistan-China), the policy will impair Turkmenistan's ability to access westward transit routes. Westward routes are more likely to be developed because of commercial interests, whereas bilaterally-agreed transit routes such as those that will go to China or potentially Iran will make progress due to the political and economic interests of the countries involved. Additionally, his comments on where gas produced in the Caspian will go seemed to almost suggest he expected the delegation to come up with an alternative to the CAC-3. Without a significant boost in production, however, it is unlikely that a Western country or company will offer up a no-cost pipeline reaching the country's border that will move Turkmen gas westward anytime soon. END COMMENT.

MILES